

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**February 19, 2009**

The Capital Projects and Bond Oversight Committee met on Thursday, February 19, 2009, at 1:00 PM, in Room 149 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Mike Denham, Co-Chair; Senators Julian Carroll and Elizabeth Tori; and Representatives Steven Rudy and Jim Wayne.

Guests testifying before the Committee: Sherron Jackson, Council on Postsecondary Education; Bob Wiseman, University of Kentucky; John Hicks, Governor's Office for Policy and Management; Sam Ruth, Finance and Administration Cabinet; Mike Jones, Department of Military Affairs; Lt. Colonel Steve King, Kentucky National Guard; Sandy Williams, Kentucky Infrastructure Authority; and Brett Antle, Office of Financial Management.

LRC Staff: Don Mullis, Shawn Bowen, Kristi Culpepper, and Samantha Gange.

Senator Carroll made a motion to approve the minutes of the January 22, 2009, meeting. The motion was seconded by Senator Tori and approved by voice vote.

Senator Leeper called on Don Mullis, Committee Staff Administrator, to discuss several items of business. Mr. Mullis said the Department of Commercialization and Innovation has transmitted correspondence to the Committee reporting an allocation of \$3.3 million from the High-Tech Investment Pool to the Kentucky Science and Technology Corporation.

Mr. Mullis said also included in members' folders was a business plan for the Kentucky State University (KSU) Center for Families and Children. [At its December 2008 meeting, during discussion of a new project for KSU to construct the Center, members requested a copy of the Center's business plan.] Folders also included proposed legislation relating to the jurisdiction of the Committee, the monthly staff update, and the market update, which is a newly added information item for members. Senator Leeper commented that he appreciated the market update addition.

Senator Leeper asked Sherron Jackson, Assistant Vice President for Equal Employment Opportunity and Finance, Council on Postsecondary Education (CPE), and Bob Wiseman, Vice President for Facilities Management, University of Kentucky (UK), to discuss a report on capital matching funds programs authorized in 2008 House Bill 406.

Mr. Jackson said the 2008 General Assembly authorized \$50 million in General Fund supported bonds for the 2008-09 Research Challenge Trust Fund to support the Endowment Match Program and a newly created Research Capital Match Program. Funds from the Research Capital Match Program will allocate \$33.3 million to UK and \$16.6 million to the University of Louisville.

HB 406 also authorized \$10 million in bond funds for the Comprehensive University Excellence Trust Fund. These funds will be allocated among the six comprehensive universities. Mr. Jackson said in September of 2008, CPE made those allocations and created a set of guidelines for the institutions to follow. Since that time, UK and Murray State University (MuSU) have determined to use a portion of their share of those pools for capital construction. He said UK has allocated \$8.3 million (15.8% of its allocation) from the Research Capital Match Program for the Digital Village Project Phase II, and MuSU has allocated \$298,500 (19%) of its allocation from the Comprehensive University Capital Match Program for a yet to be identified project. In each case there is a requirement for a dollar for dollar match for the institutions to receive funds.

Representative Wayne asked if there was a time frame for the other universities who have not decided how to use the funds. Mr. Jackson said June 2009 was the deadline for reporting the allocation of funds.

Representative Denham welcomed Mr. Mullis to the Committee and commented that the market update addition was beneficial.

Representative Denham asked how the universities plan to fund maintenance and operational costs for the facilities constructed using these funds. Mr. Jackson said the 2008 budget does not include money for maintenance and operational costs. He said universities will most likely request funds for maintenance and operational costs in the 2010-12 budget.

Next Senator Leeper asked John Hicks, Acting Budget Director, Governor's Office for Policy and Management, and Sam Ruth, Commissioner of Facilities and Support Services, Finance and Administration Cabinet, to discuss the Finance Cabinet's monthly report.

Mr. Hicks reported the Finance and Administration Cabinet's approval of a request by the Department of Military Affairs (DMA) to initiate a \$8,794,300 project to construct Phase III of the Joint Support Counter Drug Operations Center in London, KY. The project is 100% federally-funded and will include construction of a 28,221 SF building that will serve as an aviation operation facility. The facility will contain an aircraft storage hangar and administrative areas.

In response to a question from Senator Leeper, Mike Jones, Executive Director, Office of Management and Budget, DMA, responded that this is the final phase of construction for this project and should complete the project.

In response to questions from Representative Wayne, Mr. Jones said the Governor's Task Force is in charge of the Counter Drug Operation program and is responsible for program oversight. He said the National Guard is part of the Governor's Task Force along with the State Police and the Justice Department. Mr. Jones added that three cities - Frankfort, Lexington, and London, KY – handle different aspects of the program. The London office is the main operational force during the summer months, and Frankfort is responsible for oversight and construction of the facilities.

Senator Tori asked if security measures have been included in the design of all capital projects for the DMA. Lt. Colonel Steve King, Acting Construction and Facility Management Officer, Kentucky National Guard, responded affirmatively. He said that since September 11, the Department of Defense has implemented several measures to increase security at its facilities.

Senator Carroll made a motion to approve the project. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Next Mr. Hicks reported that the Finance Cabinet has approved a \$37,400 (2.25%) restricted funds scope increase for the DMA, Bluegrass Station Helipad and Taxiway Expansion project. This project was initially approved by the Committee in November 2007 as a 100% federally-funded project at a scope of \$1,498,000. In May 2008, the Committee approved a scope increase of \$166,000 (federal funds). The revised project scope was \$1,664,000.

Representative Wayne asked why DMA would use its own funds for this project. Mr. Hicks responded that DMA incurred an unexpected expense and no further funding was available at that time. Representative Wayne asked what the payback was for DMA to invest its own funds. Mr. Hicks responded that because the client at Bluegrass Station, Special Operations Forces Support Activity (SOFSA), is one of the largest occupants of leased space at Bluegrass Station, it was necessary for them to invest their own funds.

Representative Rudy made a motion to approve the project scope increase. The motion was seconded by Senator Carroll and passed by roll call vote. One member voted “No.” The revised project scope is \$1,701,400.

Mr. Hicks next reported that the Finance and Administration Cabinet has approved two unbudgeted 100% federally-funded projects for the Kentucky State Police (KSP). The Strategic Voice Aid Mutual Support System has a project scope of \$10,799,200 and provides for the purchase and installation of additional equipment to enhance interoperability for public safety agencies.

Representative Wayne made a motion to approve the KSP Strategic Voice Aid Mutual Support System project. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

The second project reported for KSP was the Mobile Communications Centers (MCCs) project. The project scope is \$1,117,400 (federal funds). KSP plans to upgrade three of its MCCs and purchase four additional ones to serve as Emergency Operations Centers during times of emergencies.

Representative Rudy made a motion to approve the project. The motion was seconded and passed unanimously by roll call vote.

Mr. Hicks noted that both projects were included in the 2008-10 executive budget bill; however, they were inadvertently appropriated to the Office of Homeland Security. He said the Office of Homeland Security is the initial grant recipient, and the projects will be implemented by KSP.

Senator Leeper called on Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA), to present several items. First Ms. Williams briefed the Committee on KIA’s role in the federal stimulus package. KIA will receive approximately \$68-\$70 million that will come through the Clean Water and Drinking Water State Revolving Fund Programs. She said KIA sent an email to cities, counties, and utilities outlining the process that will be used to request funds. The projects must be under construction by February 2010. Ms. Williams said that the Committee might see an increase in projects coming through with a principal forgiveness component. Loans will be offered, however, the American Recovery and Reinvestment Act specifically says that 50% of the funds must be distributed as grants. Although the Kentucky Revised Statutes do not allow KIA to give grant funds under the Revolving Loan Program, KIA is allowed to give principal forgiveness.

Senator Leeper asked if any statutory language change was needed. Ms. Williams said that the current statute allows KIA to fully comply with all the requirements in the federal law.

Representative Wayne asked if federal funds can be given to water districts to retire outstanding loans. Ms. Williams said only if the debt was incurred after October 1, 2008. Representative Wayne asked how this provision maintains or creates jobs. Ms. Williams responded that these funds would be for new water and sewer projects.

In response to another question from Representative Wayne, Ms. Williams said the KIA Board will approve the loans under its current guidelines and there will be an amortization schedule created with principal and interest repayments every six months. For each one of those principal portions of the repayment, the utility will receive a credit on its bill for half of the required principal portion of each payment. Ms. Williams said the forgiveness provision will pay future debt not existing debt.

Next Ms. Williams presented a Fund F loan request for the City of Manchester, Clay County. The City is requesting an increase in the amount of \$489,578 to construct a new 3.2 million gallon-per-day water treatment plant. The loan term is for 30 years with a one percent interest rate.

Senator Carroll made a motion to approve the Fund F Loan for the City of Manchester. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Ms. Williams reported 11 allocations from the Unobligated Bond Pool. The projects are as follows: City of Scottsville (Allen County) - \$251,085 grant to replace a pump station – total project is \$450,085; City of Murray (Calloway County) - \$158,177 grant for Phase V of a sewer rehab – total project is \$521,927; City of Flemingsburg (Fleming County) - \$150,000 grant to extend sewer to an industrial park – total project is \$900,000; City of Corinth (Grant County) - \$168,900 grant to extend sewer lines – total project is \$683,900; Purchase Public Service Corporation (Graves County) - \$20,804 grant to replace a treatment facility – total project is \$95,804; Wingo Water & Sewer (Graves County) - \$40,000 grant for a disinfection system – total project is \$50,000; City of Wurtland (Greenup County) - \$300,000 grant for regional sewer repairs and modifications – total project is \$300,000; Vanceburg Electric Plant Board (Lewis County) - \$100,000 grant for a combined sewer overflow renovation – total project is \$600,000; Western-Lewis Rectorville Water and Gas (Lewis County) - \$100,000 grant to extend water lines – total project is \$3,860,300; City of Livermore (McLean County) - \$16,975 grant for water plant improvements – total project is \$216,975; and Oldham County Fiscal Court (Oldham County) - \$250,000 grant to eliminate sewer plant – total project is \$497,741.

A motion was made to approve the Unobligated Bond Pool grants. The motion was seconded by Representative Denham and passed unanimously by roll call vote.

Ms. Williams said also included in members' folders were various coal and tobacco development grants authorized by the General Assembly. Each project was authorized in a budget bill and no further Committee action was needed.

Representative Denham asked Ms. Williams if the City of Flemingsburg, Fleming County Water Resource Information System number change from WX to SX has been corrected. Ms. Williams deferred to Mr. Hicks. Mr. Hicks said that it had been corrected.

Senator Leeper called Brett Antle, Deputy Director, Office of Financial Management, to the table. Mr. Antle reported 37 new bond issues with School Facilities Construction Commission (SFCC) debt participation: Ashland Independent (Boyd County), Bardstown Independent (Nelson County) (2), Bell County, Carter County, Casey County, Crittenden County, Dayton Independent (Campbell County), Elliott County, Erlanger-Elsmere Independent (Kenton County), Ft. Thomas Independent (Campbell County), Fulton Independent (Fulton County), Graves County, Henderson County, Hopkins County, Johnson County, Kenton County, Knox County, LaRue County, Laurel County, Logan County, Marion County, Martin County, McLean County, Menifee County, Nicholas County, Owensboro Independent (Daviess County) (2), Pulaski County, Russell Independent (Greenup County), Scott County, Shelby County, Todd County, Warren County, Wayne County, and Whitley County.

Representative Rudy made a motion to approve the 37 new SFCC bond issues. The motion was seconded by Representative Denham and passed unanimously by roll call vote.

Mr. Mullis next reported thirteen school district bond issues with 100% local debt service support: Boone County, Fulton Independent (Fulton County), Henderson County, Knott County, Knox County, Lincoln County, Ludlow Independent (Kenton County), Owensboro Independent (Daviess County), Paducah Independent (McCracken County), Pendleton County, Todd County, Trigg County, and Warren County. All disclosure information has been filed, and no Committee action was required.

Senator Leeper said included in members' folders was the updated debt issuance calendar.

Mr. Mullis said at the January 2009 meeting during discussion of a scope increase for the Kentucky Automated Management and Eligibility System (KAMES), members raised questions regarding the number of personnel reductions the Cabinet for Health and Family Services has experienced over the last five years. The Cabinet has submitted correspondence in response to this request. He said also included in members' folders was a report to the Appropriations and Revenue Committees dated January 2009 from the Finance and Administration Cabinet. The report was submitted in response to member questions at the January 2009 meeting regarding the state's current financial position.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded by Representative Rudy and the meeting adjourned at 1:50 p.m.